

Message Text

CONFIDENTIAL

PAGE 01 LISBON 06668 01 OF 03 081823Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 NSAE-00 NSCE-00 SSO-00
ICAE-00 INRE-00 PM-05 H-01 INR-10 L-03 PA-01
SP-02 SS-15 TRSE-00 OMB-01 EB-08 AID-05 FRB-03
XMB-02 AGRE-00 SIL-01 LAB-04 OPIC-03 /077 W
-----023025 081905Z /40

O R 081724Z SEP 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 6951
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
AMEMBASSY ROME
USMISSION USNATO
DIA WASH DC
USCINCEUR VAIHINGEN GER
USNMR SHAPE BEL
COMUSFORAZ

C O N F I D E N T I A L SECTION 1 OF 3 LISBON 6668

USEEC

E.O. 11652: GDS
TAGS: PINT PO
SUBJ: NOBRE DA COSTA PRESENTS GOVERNMENT PROGRAM

1. SUMMARY
PRIME MINISTER NOBRE DA COSTA ON SEPTEMBER 7 PRESENTED
HIS 411-PAGE "PROGRAM OF GOVERNMENT" TO THE ASSEMBLY. HE
SUMMARIZED ITS MAJOR POINTS ORALLY, THEN TOOK QUESTIONS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06668 01 OF 03 081823Z

FROM THE PARTIES. THIS MESSAGE GIVES OUR FIRST IMPRESSIONS.
HE SAID THE RIGHT KINDS OF THINGS, ACCEPTING PORTUGAL'S
COMMITMENTS IN ITS AGREEMENT WITH THE IMF, REAFFIRMING THE
CENTRAL IMPORTANCE OF POLITICAL PARTIES IN A DEMOCRACY,
AND SUGGESTING THAT HE WILL PREPARE THE WAY FOR A SUCCESSOR
GOVERNMENT WITH A STABLE ASSEMBLY MAJORITY.
END SUMMARY

2. CALENDAR

THE PROGRAM WILL BE VOTED ON BY THE ASSEMBLY WITHIN FIVE WORKING DAYS. WE MAY THUS KNOW ASSEMBLY VERDICT LATE NEXT WEEK. PREVAILING OPINION IS THAT THE PROGRAM WILL PASS, BUT POSSIBLY WITH THE EMBARRASSMENT OF HAVING MORE VOTES AGAINST IT THAN FOR IT. (ARTICLE 195 OF CONSTITUTION PROVIDES THAT A GOVERNMENT'S PROGRAM CAN BE REJECTED ONLY BY "AN ABSOLUTE MAJORITY OF MEMBERS OF THE ASSEMBLY ENTITLED TO VOTE.") THERE IS AN OUTSIDE CHANCE THAT THE CDS WILL SUPPORT A PS MOTION OF REJECTION, PROVIDING THE NECESSARY MAJORITY.

3. OVERVIEW

FOLLOWING ARE THE MOST INTERESTING POINTS OF NOBRE DA COSTA'S PRESENTATION. OUR COMMENTS ARE BASED ON HIS LENGTHY ORAL REMARKS RATHER THAN ON A DETAILED STUDY OF THE WRITTEN PROGRAM.

A. THE NEW PRIME MINISTER MADE A POINT OF EXPRESSING RESPECT FOR THE ROLE OF THE PARTIES. HE RECOGNIZED THAT HIS LACK OF EXPLICIT PARTY SUPPORT MAKES HIS GOVERNMENT VERY DIFFERENT FROM THOSE OF HIS PREDECESSORS. SINCE HE WOULD NOT ENJOY DIRECT PARTY SUPPORT, HE WOULD START HIS TERM OF OFFICE WITH A COMMITMENT TO WORK PROMPTLY ON "MATERIAL CONDITIONS TO FACILITATE" THE GOVERNMENT'S CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06668 01 OF 03 081823Z

"OWN REPLACEMENT." IN OTHER WORDS, HE WOULD TRY TO MAKE HIS SUCCESSION EASY. GIVEN THIS STATEMENT, WE SUPPOSE THAT IT WOULD BE DIFFICULT FOR NOBRE DA COSTA TO AVOID RESIGNING IF THE PARTIES SHOULD REACH AGREEMENT ON A NEW MAJORITY GOVERNMENT.

B. NOBRE DA COSTA MADE A GOOD PERSONAL IMPRESSION. HE HAD MASTERED HIS BRIEF AND WAS A FLUENT, SOMETIMES EVEN HUMOROUS, SPEAKER.

C. HE EMPHASIZED EFFICIENCY, NOT INNOVATION. THIS MADE THE BEST OF HIS HANDICAP: HE COULD HARDLY HAVE PROMISED INNOVATION GIVEN HIS LACK OF PARTY SUPPORT.

D. HE DID NOT CITE ANY MAJOR CHANGES FROM THE PROGRAM OF THE PREVIOUS GOVERNMENT IN THE POLITICAL AND SOCIAL FIELDS.

E. REPLYING TO A QUESTION FROM THE SOCIALIST PARTY, NOBRE DA COSTA SAID THAT HE WOULD NOT ALTER "THE PAUSE IN THE ROAD TO SOCIALISM" ANNOUNCED BY MARIO SOARES. THIS REFERRED TO SOARES'S PROGRAM WHEN FORMING A COALITION WITH

THE CDS IN FEBRUARY (LISBON 0927). IN EFFECT, NOBRE DA COSTA PROMISED CONSERVATIVE GOVERNMENT IN TERMS CALCULATED TO MAKE SOCIALIST OBJECTIONS SOUND HOLLOW.

F. THE NEW GOVERNMENT'S FOREIGN POLICY WOULD, HE SAID, MAINTAIN PORTUGAL'S EUROPEAN VOCATION, INCLUDING

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 06668 02 OF 03 081829Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 NSAE-00 NSCE-00 SSO-00
ICAE-00 INRE-00 PM-05 H-01 INR-10 L-03 PA-01
SP-02 SS-15 TRSE-00 OMB-01 EB-08 AID-05 FRB-03
XMB-02 AGRE-00 SIL-01 LAB-04 OPIC-03 /077 W
-----023308 081909Z /40

O R 081724Z SEP 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 6952
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
AMEMBASSY ROME
USMISSION USNATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
USNMR SHAPE BEL
COMUSFORAZ

C O N F I D E N T I A L SECTION 2 OF 3 LISBON 6668

USEEC

MEMBERSHIP IN NATO AND THE EC. IT WOULD ALSO EMPHASIZE RELATIONS WITH PORTUGUESE-SPEAKING AFRICA.

G. NOBRE DA COSTA POLITELY NOTED THAT, IF HIS PROGRAM WERE APPROVED (I.E. NOT REJECTED) BY THE ASSEMBLY, HIS GOVERNMENT WOULD HAVE TO BE MORE THAN JUST A CARETAKER BECAUSE PORTUGAL'S PROBLEMS ARE TOO SEVERE AND PRESSING TO

TOLERATE A CARETAKER APPROACH. HE WOULD CONSIDER HIMSELF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06668 02 OF 03 081829Z

A SHORT-TERM CARETAKER ONLY IF HIS PROGRAM WERE REJECTED.
(HE UNCONVINCINGLY IMPLIED THAT FAILURE TO REJECT IS THE
SAME AS A POSITIVE VOTE OF APPROVAL.)

4. ECONOMIC OBJECTIVES.

A. THE STABILIZATION PROGRAM

THE NOBRE DA COSTA GOVERNMENT PROMISES TO PURSUE RIGOROUS
IMPLEMENTATION OF CURRENT STABILIZATION PROGRAM BECAUSE:

-- IT IS A BINDING GOP COMMITMENT TO THE IMF;
-- MEASURES AGREED TO ARE IN ANY CASE NECESSARY TO
REDUCE EXTERNAL DEFICIT, IMF AGREEMENT NOTWITHSTANDING,
AND THE GOVERNMENT RECOGNIZES EXTERNAL DEFICIT AS THE
ECONOMY'S MOST SERIOUS CONSTRAINT;
-- NON-IMPLEMENTATION OF CURRENT STABILIZATION PROGRAM
WOULD SERIOUSLY IMPAIR PORTUGAL'S IMAGE ABROAD, WOULD
DRY UP POTENTIAL SOURCES OF FINANCIAL RESOURCES, AND
ONLY FORCE EVEN MORE ONEROUS MEASURES LATER.
NONETHLESS, THE PROGRAM ANTICIPATES POSSIBLE RELAXATION OF
SOME PRESENT STABILIZATION POLICIES IF CONSTRAINTS,
PARTICULARLY EXTERNAL DEFICIT AND INFLATION, EASE. GOP
WILL EXAMINE THOSE POSSIBILITIES IN CONTEXT OF THE IMF-GOP
MEETING SCHEDULED FOR JANUARY, 1979. (NOTE: THIS DOES
NOT AFFECT THE INFORMAL IMF-GOP REVIEW STILL SCHEDULED
FOR OCTOBER.)

5. SPECIFIC POLICIES.

A. CREDIT

PRESENT CREDIT POLICIES, INCLUDING CREDIT CEILINGS FOR
INDIVIDUAL BANKING INSTITUTIONS WILL GENERALLY BE KEPT
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06668 02 OF 03 081829Z

IN PLACE FOR DURATION OF PRESENT STABILIZATION PROGRAM.
CERTAIN ADJUSTMENTS MAY, HOWEVER, BE INTRODUCED TO MAKE
THE USE OF AVAILABLE CREDIT MORE EFFICIENT IN TERMS OF
OTHER OBJECTIVES, E.G., STIMULATING PRODUCTIVE, EXPORT-
ORIENTED INVESTMENT, EMPLOYMENT, AND AGRICULTURAL
PRODUCTIVITY.

B. INTEREST RATES

WILL BE KEPT AT CURRENT LEVELS AT LEAST THROUGH
DECEMBER 31. SUBSEQUENT REVISIONS, IF ANY, WILL BE
CONDITIONED ON SUCCESS IN REDUCING THE INFLATION RATE AND
ON EXCHANGE RATE MOVEMENTS. OBJECTIVE OF ANY MODIFICATION
WILL BE TO DISCOURAGE CAPITAL FLIGHT AND ENCOURAGE PRIVATE
DOMESTIC SAVING.

C. EXCHANGE RATE

ESCUDO'S DOWNWARD CRAWL MAY BE SLOWED AFTER DECEMBER 31,
DEPENDING ON OTHER DEVELOPMENTS, NOTABLY THE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 06668 03 OF 03 081835Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 NSAE-00 NSCE-00 SSO-00
ICAE-00 INRE-00 PM-05 H-01 INR-10 L-03 PA-01
SP-02 SS-15 TRSE-00 OMB-01 EB-08 AID-05 FRB-03
XMB-02 AGRE-00 SIL-01 LAB-04 OPIC-03 /077 W
-----023822 081910Z /40

O R 081724Z SEP 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 6953
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
AMEMBASSY ROME
USMISSION USNATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
USNMR SHAPE BEL
COMUSFORAZ

C O N F I D E N T I A L SECTION 3 OF 3 LISBON 6668

USEEC

INFLATION RATE.

D. EC.

THE GOP WILL SEEK TO MAINTAIN MOMENTUM IN NEGOTIATIONS WITH EC. EVEN WHILE NEGOTIATIONS PROGRESS, GOP WILL SEEK TO ALIGN INDUSTRIAL AND OTHER POLICIES TO EC-WIDE CONDITIONS, ESPECIALLY IN THE TEXTILE AND STEEL SECTORS.
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06668 03 OF 03 081835Z

(NOTE: WE WILL SEEK CLARIFICATION OF THIS POLICY, PARTICULARLY IN RELATION TO INVESTMENT GOALS.) THE GOP ALSO WILL PROPOSE SPECIFIC PROJECTS SUITABLE FOR EC FINANCING EVEN WHILE NEGOTIATIONS PROGRESS.

E. INCOMES/PRICES

AVERAGE RATE OF WAGE INCREASES SHOULD BE EQUAL TO INFLATION RATE. (COMMENT: A BOW TO LABOR, ESPECIALLY IN VIEW OF PREVIOUS GOP EFFORTS UNDER THE SOCIALISTS TO HOLD WAGE INCREASES SUBSTANTIALLY BELOW THE RATE OF INFLATION.) SPECIAL MEASURES TO PROTECT LOWEST INCOME GROUPS WILL BE PURSUED, INCLUDING CONTINUATION OF SUBSIDIZED MARKET BASKET. PRICE POLICIES WILL GENERALLY ALLOW FOR COVERING REAL PRODUCTION COSTS; MARKET DISTORTIONS WILL BE AVOIDED TO EXTENT POSSIBLE.

F. FISCAL POLICY.

CURRENT OPERATIONS SHOULD SHOW A MODEST SURPLUS NEXT YEAR, IMPLYING A DECLINE IN REAL OUTLAYS. THE DEFICIT WILL BE CONSISTENT WITH DOMESTIC CREDIT CONSTRAINTS.

G. COMPENSATION FOR NATIONALIZED PROPERTIES.

THE GOP WILL ADOPT REGULATIONS TO IMPLEMENT THE COMPENSATION LAW ON PRIORITY BASIS.

H. MEDIUM TERM PLAN.

NOBRE DA COSTA GOVERNMENT WILL NOT DRAFT MEDIUM-TERM PLAN UNLESS IT PASSES A VOTE OF CONFIDENCE. IN ANY CASE, PRELIMINARY STUDIES FOR A MEDIUM-TERM PLAN WILL REQUIRE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06668 03 OF 03 081835Z

SEVERAL MONTHS.

6. COMMENT.

OUR INITIAL IMPRESSION OF THE NOBRE DA COSTA GOVERNMENT'S PROGRAM IS THAT IS IS A MORE THOROUGH, MORE CAREFULLY CONCEIVED DOCUMENT THAN ITS PREDECESSOR, PARTICULARLY WITH REGARD TO SPELLING OUT ECONOMIC POLICIES. WHILE IT CONTINUES, ON THE WHOLE, POLICIES INITIATED BY THE PREVIOUS GOVERNMENT, IT APPEARS TO INTRODUCE CERTAIN TENDENCIES THAT BEAR CAREFUL SCRUTINY. MOST NOTABLE ARE THE EMPHASIS GIVEN TO THE PUBLIC SECTOR ENTERPRISES AND THE IMPLIED INTENTION TO STIMULATE GROWTH. WE WILL ADDRESS THESE AND OTHER ISSUES SEPTTEL ONCE WE HAVE HAD MORE TIME TO DIGEST THIS 411 PAGE DOCUMENT.
ROWELL

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRIME MINISTER, FOREIGN POLICY POSITION, SPEECHES, CENTRAL LEGISLATURE
Control Number: n/a
Copy: SINGLE
Draft Date: 08 sep 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON06668
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780366-1015
Format: TEL
From: LISBON USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780989/aaaacvnm.tel
Line Count: 345
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 74411054-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1505602
Secure: OPEN
Status: NATIVE
Subject: NOBRE DA COSTA PRESENTS GOVERNMENT PROGRAM
TAGS: PINT, PO, (COSTA, NORBE DA)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/74411054-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014